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CAPITAL LTD.

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ANNUAL REPORT

30TH SEPTEMBER, 1977



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CAPITAL LTD.

DIRECTORS

George A. Fierheller
*President,
Systems Dimensions Limited
Ottawa, Ontario*

James G. S. Gammell, M.B.E., C.A.
*Chairman,
Ivory & Sime Limited
Edinburgh, Scotland*

R. Alexander Hammond-Chambers
*Director,
Ivory & Sime Limited
Edinburgh, Scotland*

Neil B. Ivory
*President,
Pembroke Management Ltd.
Montreal, Quebec*

John S. Lane, C.F.A.
*Vice-President, Securities Investments,
Sun Life Assurance
Company of Canada
Montreal, Quebec*

Clifford L. Larock, F.C.I.S.
*Chairman,
Pembroke Management Ltd.
Montreal, Quebec*

A. Deane Nesbitt, O.B.E., D.F.C.
*Chairman of the Board
Nesbitt, Thomson and
Company, Limited
Montreal, Quebec*

Douglas W. Parkin, M.A., F.I.A.
*Senior Vice-President for
Canada, Finance
The Prudential Assurance
Company Limited
Montreal, Quebec*

OFFICERS

Clifford L. Larock, F.C.I.S.
President and Chief Executive Officer

Neil B. Ivory
Vice-President

A. Scott Taylor, C.F.A.
Vice-President

Richard Haller
Secretary-Treasurer

Cyril F. Reid
Assistant Secretary-Treasurer

MANAGERS AND LOCATION OF EXECUTIVE OFFICES

Pembroke Management Ltd.
1018 Sun Life Building,
Dominion Square,
Montreal, Quebec
H3B 2W8

LISTED

Montreal Stock Exchange

AUDITORS

Touche Ross & Co.,
Chartered Accountants,
1 Place Ville Marie,
Montreal, Quebec
H3B 2A2

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company,
Montreal, Toronto and Calgary
(also Winnipeg and Vancouver for
Preferred Shares)

REGISTERED OFFICE

First Canadian Place,
Toronto, Ontario

TO THE SHAREHOLDERS:

REVIEW OF THE 1977 PERIOD

GBC has changed its fiscal year end to 30th September, to conform with that of its parent, British Assets Trust Limited. As a result this annual report covers only the first nine months of 1977.

The period under review was characterized by relatively strong economic growth in the U.S. compared with that in Canada, a declining Canadian dollar, rising U.S. short term interest rates and a fairly extensive decline in the broad North American stock market averages. GBC's investment results were superior to the indices during this period because of decisions made late in 1976 to emphasize U.S. growth stocks, to increase the buying reserve with the funds being kept in U.S. dollars, and to dispose of shares of Canadian companies that are heavily dependent upon the domestic economy.

During the nine months under review, Shareholders Equity rose 17.3% to \$42.5 million while the net asset value per common share rose 19.5% to \$13.37. (Taking Associated Company investments at market prices the net asset value per share rose 17.4% to \$12.78). All of these figures were new record highs for GBC.

Consolidated net income for the nine months ended 30th September, 1977 amounted to \$975,924, compared with \$1,257,306 during the same period in 1976. After preferred dividends, net income per common share equalled \$0.27. The decline was due almost entirely to non-recurring factors at both Headway and Toromont.

A dividend of \$0.068 per common share has been declared payable on 15th November, 1977.

STRATEGY

Since 1972, GBC has pursued a policy of maximizing long term capital growth combined with gradually rising income by means of the following strategy:

- 1) the acquisition of Associated Company holdings (i.e. 20% ownership with board representation) to increase net income through equity accounting, without sacrificing the potential for long term capital growth;
- 2) the selection and retention in Dominion-Scottish of a stock portfolio of rapidly growing and highly profitable small to intermediate sized U.S. and Canadian companies; and

- 3) the emphasis by Sutton Ventures on equities of small high technology growth companies in the U.S.

The following facts show that this policy has produced satisfactory results over the last five years:

In 1971, GBC's consolidated net income per common share was \$0.02 while for the twelve months ended on 30th September, 1977 it equalled \$0.50.

Between 31st December, 1971 and 30th September, 1977, GBC's net asset value per common share, valuing Associated Companies at market, rose from \$7.54 to \$12.78, or 69.5%.

During the same interval the Standard & Poor 500 Composite Index declined 5.5% and the Toronto Stock Exchange 300 Composite Index rose 1.0%.

SUBSIDIARIES

DOMINION-SCOTTISH INVESTMENTS LIMITED

During the nine months ended 30th September, 1977, Shareholder's Equity of Dominion-Scottish rose 16.1% to \$24.4 million which may be compared with declines of 1.1% and 9.7% in the Toronto Stock Exchange 300 Composite and Standard & Poor 500 Composite indices respectively.

SUTTON VENTURES LTD.

Principally reflecting the superior stock market action of Shared Medical Systems, the dominant holding, Sutton Venture's net asset value per share rose 27.7% to \$18.74 during the first nine months of 1977.

ASSOCIATED COMPANIES

HEADWAY CORPORATION

For the fiscal year ended 31st August, 1977, Headway reported net income of \$1.17 million or \$0.40 per share versus \$1.65 million or \$0.56 in 1976. Results for 1977 reflected an extraordinary charge of \$0.95 million from the disposition of Suny's retail gasoline division. Cash flow in 1977 of \$4.67 million or \$1.57 per share compared favourably with \$3.86 million or \$1.30 per share in 1976.

Activity in the housing division centered around the provision of lower priced homes and the sale of tax deferral income property units. The company's income property portfolio produced record results and should demonstrate continued growth in the next few years as a result of various projects now under development.

With an improved financial position Headway should continue to grow notwithstanding the many problems facing the Canadian economy.

REVELSTOKE COMPANIES LTD.

For the twelve month period ended 30th June, 1977, Revelstoke reported net income of \$3.66 million or \$0.91 per share which was virtually the same as the figures reported for the previous twelve month period.

Revelstoke's retail and concrete divisions experienced a rapid rate of growth in 1976 but this growth rate has not been sustained this year. Sales in certain market areas, particularly Alberta, have been satisfactory but in other areas, notably British Columbia, the market for building materials remains very weak.

The lumber division is benefiting this year from a much higher volume of sales and strong lumber prices. This division should report a profit for 1977, which would be a welcome improvement over the substantial losses incurred by this division over the last three years.

TOROMONT INDUSTRIES LTD.

For the twelve months ended 30th June, 1977, net earnings amounted to \$1.08 million which was substantially below net earnings of \$2.17 million in the previous twelve month period. The decline is due mainly to disposal of certain subsidiaries. In the latest twelve month period such disposals resulted in a loss of \$0.22 million whereas in the earlier period there was a gain of \$0.67 million from this source.

Toromont's sales and earnings have been adversely affected by the low level of capital expenditures in Canada. Some signs of improvement have started to appear and, over the longer term, construction of a large diameter gas pipeline through Western Canada could be highly beneficial for one of Toromont's larger subsidiaries.

OUTLOOK FOR 1978

In the U.S., where money supply growth has been expansive, corporate financial institution liquidity is high and real wages are increasing, prospects for continuing strong economic growth appear good, at least until the middle of next year. Unfortunately rising credit demands, combined with the unfavourable trade picture, suggest that short term interest rates will continue to rise and eventually push long term rates upward as well. This is not a favourable environment for common stocks, especially at a time when uncertainties exist about energy policies and tax reform.

In Canada, economic prospects, except in Alberta are bleak, political uncertainties are high and consumer and business confidence poor. A weak Canadian dollar and rising unemployment may prompt new initiatives from government which are conducive to stimulating business investment policies. Such initiatives have been sadly lacking during the last several years and until constructive action takes place the prospects for the stock market appear dim.

It is our plan to maintain a relatively cautious investment posture for the foreseeable future, with emphasis upon the shares of U.S. companies that are strongly financed, have well defined growth prospects not dependent upon overall economic growth, and are modestly valued.

THE LATE MR. DONALD B. McCASKILL

Mr. Donald B. McCaskill, who had served as a director of this Corporation since 28th April, 1972, died suddenly on 3rd April, 1977. Mr. McCaskill was an esteemed colleague and his counsel and friendly presence has been missed by the members of the Board and the Officers of GBC.

On behalf of the Board,

Clifford L. Larock,
President.

Montreal, Quebec,
21st October, 1977.

GBC CAPITAL LTD.
and subsidiary companies

**CONSOLIDATED
STATEMENT OF INCOME AND
RETAINED EARNINGS**
for the Nine Months Ended
30th September, 1977

	1977	1976
INCOME FROM INVESTMENTS		
Securities in investment portfolios	\$ 499,939	\$ 396,726
Associated companies (share of earnings — Note 3) ...	815,598	1,127,369
Interest	137,330	181,336
	<u>1,452,867</u>	<u>1,705,431</u>
Management expenses	180,444	165,030
Other expenses	69,523	48,670
	<u>249,967</u>	<u>213,700</u>
	<u>1,202,900</u>	<u>1,491,731</u>
Income and withholding taxes	115,531	122,926
	<u>1,087,369</u>	<u>1,368,805</u>
Minority interest	111,445	111,499
NET INCOME	<u>975,924</u>	<u>1,257,306</u>
Retained earnings at 1st January	4,054,576	2,616,224
	<u>5,030,500</u>	<u>3,873,530</u>
Dividends:		
5 1/4% preferred shares	236,250	236,250
RETAINED EARNINGS AT 30TH SEPTEMBER	<u>\$4,794,250</u>	<u>\$3,637,280</u>
Net income per common share	<u>\$0.275</u>	<u>\$0.384</u>

AUDITORS' REPORT

To the Shareholders of
GBC Capital Ltd.

We have examined the consolidated statement of financial position of GBC Capital Ltd. as at 30th September, 1977 and the consolidated statement of income and retained earnings for the nine months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at 30th September, 1977 and the results of its operations for the nine months then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
21st October, 1977.

Touche Ross & Co.
Chartered Accountants.

GBC CAPITAL LTD.
and subsidiary companies

**CONSOLIDATED
STATEMENT OF
FINANCIAL POSITION**
as at 30th September, 1977

	<u>1977</u>	<u>1976</u>
INVESTMENTS		
Securities in investment portfolios at market value (Note 2)	\$29,784,982	\$24,834,154
Associated companies (Note 3)	11,383,000	11,423,458
	<u>41,167,982</u>	<u>36,257,612</u>
 CURRENT ASSETS		
Cash and short term deposits	4,283,667	2,392,489
Accounts receivable	55,446	—
Accrued income on investments	178,844	137,934
Income taxes recoverable	129,400	—
	<u>4,647,357</u>	<u>2,530,423</u>
 CURRENT LIABILITIES		
Preferred dividend payable	78,750	78,750
Accounts payable and accrued expenses	70,726	423,496
Income taxes payable	28,000	236,488
	<u>177,476</u>	<u>738,734</u>
 NET CURRENT ASSETS	<u>4,469,881</u>	<u>1,791,689</u>
	45,637,863	38,049,301
 MINORITY INTEREST	<u>3,151,313</u>	<u>3,113,128</u>
SHAREHOLDERS' EQUITY (Note 6)	<u>\$42,486,550</u>	<u>\$34,936,173</u>
 REPRESENTED BY		
Capital stock (Note 4)	\$22,166,574	\$21,968,574
Contributed surplus	1,325,310	1,325,310
Retained earnings	4,794,250	3,637,280
Surplus from changes in investments (Note 5)	5,995,087	4,989,302
Unrealized appreciation of investments (Note 2)	8,205,329	3,015,707
	<u>\$42,486,550</u>	<u>\$34,936,173</u>

Approved by the Board:

C. L. LAROCK, Director
NEIL B. IVORY, Director

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**
30th September, 1977

Note 1. Accounting Policies and Presentation

(a) General

The corporation follows generally accepted accounting principles in the preparation of its financial statements and their application is consistent with that of the previous year.

The corporation has changed its year end from 31st December to 30th September effective 30th September, 1977.

(b) Principles of consolidation

The consolidated financial statements include the accounts of Dominion-Scottish Investments Limited (98.94% owned) and Sutton Ventures Ltd. (100% owned) and give effect to the share of earnings attributable to investments in associated companies. (See Note 3).

(c) Equity accounting

The corporation accounts for its investments in associated companies on the equity method. Although in Canada such holdings would not of themselves warrant the use of the equity method, the corporation believes it is appropriate in these particular cases.

(d) Foreign currencies

Transactions in foreign currencies during the period were recorded at the relative rates of exchange applicable on the dates of such transactions. Amounts in foreign currencies included in assets and liabilities have been shown in Canadian funds, converted at rates of exchange applicable at the end of the period, any adjustment thereon being credited or charged, as the case may be, to "Surplus from Changes in Investments".

(e) Statement of changes in financial position

A statement of changes in financial position has been omitted since it is deemed inappropriate for an investment corporation. A statement of changes in shareholders' equity (Note 6) has been substituted therefor.

Note 2. Securities in Investment Portfolios at Market Value

	1977	1976
GBC Capital Ltd.	\$ 3,816,000	\$ 3,467,247
Dominion-Scottish Investments Limited	22,377,912	18,038,757
Sutton Ventures Ltd.	3,591,070	3,328,150
	<u>29,784,982</u>	<u>24,834,154</u>
Securities at average cost	20,627,540	20,948,537
	<u>9,157,442</u>	<u>3,885,617</u>
Amount required to adjust average cost from a corporate basis to a consolidated basis	(952,113)	(869,910)
Balance included in shareholders' equity as unrealized appreciation of investments	\$ 8,205,329	\$ 3,015,707

Note 3. Associated Companies

The corporation's share of equity values, on a fully diluted basis, at 30th September, 1977 is as follows:

	Share of Equity	Share of Earnings for the Period
Revelstoke Companies Ltd.	\$ 5,344,000	\$ 408,000
Headway Corporation Ltd. (share of earnings includes interest on debentures)	3,202,000	182,335
Toromont Industries Ltd.	2,063,000	225,263
	<u>\$10,609,000</u>	<u>\$ 815,598</u>

The investment in associated companies of \$11,383,000 includes an amount of \$774,000 representing the excess cost of the investments over the equity value less amortization. The amortization is over 40 years and the current charge for the period, netted against equity earnings, is \$16,973.

The market value of these investments as at 30th September, 1977 is \$9,791,625.

Note 4. Capital Stock

	1977	1976
5 1/4% cumulative redeemable preferred shares without nominal or par value		
Authorized and issued — 120,000 shares	\$ 6,000,000	\$ 6,000,000
Common shares without nominal or par value		
Authorized — not limited		
Issued — 2,694,429	16,166,574	16,166,574
	<u>22,166,574</u>	<u>22,166,574</u>
Less: Shares held by a subsidiary at stated value		
33,000 common	—	198,000
	<u>\$22,166,574</u>	<u>\$21,968,574</u>

The preferred shares are redeemable at the option of the corporation at any time in whole or from time to time in part, on not less than 30 days' notice, at \$52.50 per share (in one restricted event at \$50 per share) plus accrued and unpaid dividends, if any, to the date of redemption. The corporation may, at any time and from time to time, also purchase the whole or any part of such preferred shares in the open market at a price not exceeding the redemption price thereof plus costs of purchase.

GBC CAPITAL LTD.
and subsidiary companies

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**
30th September, 1977
(Continued)

Note 5. Surplus from Changes in Investments

	1977	1976
Balance at 1st January	<u>\$ 4,853,884</u>	<u>\$ 3,962,172</u>
Gain on changes in investments (including gain on exchange \$212,744; 1976 — loss \$14,825)	<u>1,345,183</u>	<u>1,239,090</u>
Income taxes on changes in investments	<u>203,980</u>	<u>211,960</u>
	<u>1,141,203</u>	<u>1,027,130</u>
Balance at 30th September	<u>\$ 5,995,087</u>	<u>\$ 4,989,302</u>

Note 6. Changes in Shareholders' Equity

	1977	1976
Shareholders' equity at 1st January	<u>\$36,237,103</u>	<u>\$29,650,047</u>
Add:		
Net income for the period	<u>975,924</u>	<u>1,257,306</u>
Gain on changes in investments		
Portfolio securities at average cost		
at beginning of period	<u>20,769,687</u>	<u>18,986,396</u>
Purchases	<u>6,829,615</u>	<u>9,715,781</u>
	<u>27,599,302</u>	<u>28,702,177</u>
Portfolio securities at average cost		
at end of period	<u>20,627,540</u>	<u>20,948,537</u>
Cost of securities sold	<u>6,971,762</u>	<u>7,753,640</u>
Proceeds from securities sold	<u>8,104,201</u>	<u>9,007,555</u>
	<u>1,132,439</u>	<u>1,253,915</u>
Gain (loss) on exchange	<u>212,744</u>	<u>(14,825)</u>
Stated value of common shares held by a subsidiary and disposed of during period	<u>198,000</u>	<u>—</u>
Increase in unrealized appreciation of investments	<u>4,170,570</u>	<u>3,237,940</u>
	<u>6,689,677</u>	<u>5,734,336</u>
Deduct:		
Income taxes on changes in investments	<u>203,980</u>	<u>211,960</u>
Dividends on 5¼% preferred shares	<u>236,250</u>	<u>236,250</u>
	<u>440,230</u>	<u>448,210</u>
Increase for the period	<u>6,249,447</u>	<u>5,286,126</u>
Shareholders' equity at 30th September	<u>\$42,486,550</u>	<u>\$34,936,173</u>

Note 7. Directors and Officers

Aggregate remuneration paid during the period to the corporation's nine directors was as follows:

Paying corporation	1977	1976
GBC Capital Ltd.	\$11,861	\$12,825
Dominion-Scottish Investments Limited	11,861	12,825
Sutton Ventures Ltd.	750	750
	<u>\$24,472</u>	<u>\$26,400</u>

No remuneration was paid to the corporation's five officers, two of whom are directors.

Note 8. Statute of Incorporation

On 27th April, 1977 a Certificate of Continuance under the Canada Business Corporations Act was granted to the corporation.

Note 9. Net Asset Value

The net asset value per common share of the corporation is as follows:

	1977	1976
Equity accounting basis	\$13.37	\$10.70
Market value basis	\$12.78	\$10.11

GBC CAPITAL LTD.
and subsidiary companies

INVESTMENT PORTFOLIOS
as at 30th September, 1977

	Number of Shares	Market Value
CONSUMER PRODUCTS		
*Chef Pierre, Inc.	25,000	\$ 466,392
Dominion Dairies Limited	64,000	1,088,000
*Entenmann's, Inc.	25,000	677,584
Scott's Restaurants Co. Limited	100,000	838,000
		<u>\$ 3,069,976</u>
DATA PROCESSING		
*National Data Corporation	50,000	\$ 382,667
†*Shared Medical Systems Corporation	230,000	5,851,166
*Sycor, Inc.	15,000	197,237
		<u>\$ 6,431,070</u>
DISTRIBUTION		
Emco Limited	75,000	\$ 393,750
Wajax Limited	40,000	740,000
		<u>\$ 1,133,750</u>
ELECTRONICS		
*Applied Digital Data Systems Inc., convert. pfd.	2,000	\$ 67,367
*Applied Digital Data Systems Inc.	10,000	150,276
		<u>\$ 217,643</u>
ENERGY		
*American Quasar Petroleum	20,000	\$ 705,868
*Murphy Oil Corporation	15,000	555,484
Numac Oil & Gas Ltd.	25,000	300,000
Shell Canada Limited	30,000	465,000
Siebens Oil & Gas Ltd.	20,000	350,000
*Standard Oil Company, The, Ohio	15,000	1,296,131
Voyager Petroleum Ltd.	80,000	830,400
*Williams Companies	30,000	652,090
		<u>\$ 5,154,973</u>
FINANCE		
*H & R Block, Inc.	50,000	\$ 1,247,828
HEALTH CARE		
*National Medical Care, Inc.	49,500	\$ 1,348,523
*ServiceMaster Industries Inc.	30,000	917,757
*Survival Technology, Inc.	5,000	24,151
		<u>\$ 2,290,431</u>

	Number of Shares	Market Value
MANUFACTURING		
Atco Industries Ltd.	30,000	\$ 468,900
J. Harris & Sons, Limited	173,100	631,815
Ivaco Industries Limited	60,000	360,000
*Marley Company, The	40,000	1,191,474
*Pacesetter Building Systems, Inc.	20,000	257,616
		<u>\$ 2,909,805</u>
METALS AND MINING		
Lornex Mining Corporation Ltd.	50,000	\$ 425,000
Yukon Consolidated Gold Corporation Limited, The	500,000	1,000,000
		<u>\$ 1,425,000</u>
REAL ESTATE		
*Cousins Properties Incorporated	89,500	\$ 228,645
*General Growth Properties, S.B.I.	50,000	1,241,387
Orlando Corporation	130,000	1,674,400
*Rouse Company, The	100,000	697,710
		<u>\$ 3,842,142</u>
RETAILING		
Grafton Group Limited	30,000	\$ 532,500
*Mervyn's	25,000	1,053,274
		<u>\$ 1,585,774</u>
TRANSPORTATION		
*Midwestern Distribution, Inc., Class "A"	50,000	\$ 476,590
		<u>\$ 476,590</u>
TOTAL VALUE OF INVESTMENT PORTFOLIOS		<u>\$29,784,982</u>

*U.S. Securities.

†Restricted shares, at Directors' valuation.

GBC CAPITAL LTD.
and subsidiary companies

FIVE-YEAR FINANCIAL SUMMARY

	<u>1977(1)</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
Gross income (thousands)	\$ 1,453	\$ 2,521	\$ 1,890	\$ 1,639	\$ 1,190
Net income (thousands)	976	1,926	1,373	1,213	765
Per common share—					
Net income	0.27	0.61	0.40	0.34	0.17
Dividend paid	—	0.065	0.06	0.06	0.04
Total funds available (thousands)	45,638	39,356	32,870	26,138	34,501
Shareholders' equity (thousands)	42,487	36,237	29,650	22,913	31,104
Available for common shares (thousands)	36,028	29,779	23,192	16,455	24,645
Net asset value per common share:					
Equity accounting basis	13.37	11.19	8.71	6.18	9.26
Market value basis	12.78	10.89	7.42	5.08	9.59

(1) Nine month period ended 30th September, 1977.

OFFICERS

Clifford L. Larock, F.C.I.S.
President and Chief Executive Officer

Neil B. Ivory
Vice-President

A. Scott Taylor, C.F.A.
Vice-President

Richard Haller
Secretary-Treasurer

Cyril F. Reid
Assistant Secretary-Treasurer

DIRECTORS

George A. Fierheller
James G. S. Gammell, M.B.E., C.A.
R. Alexander Hammond-Chambers
Neil B. Ivory
John S. Lane, C.F.A.
Clifford L. Larock, F.C.I.S.
A. Deane Nesbitt, O.B.E., D.F.C.
Douglas W. Parkin, M.A., F.I.A.

MANAGERS AND LOCATION OF EXECUTIVE OFFICES

Pembroke Management Ltd.,
1018 Sun Life Building,
Dominion Square,
Montreal, Quebec H3B 2W8

LISTED

Montreal Stock Exchange

AUDITORS

Touche Ross & Co., Chartered Accountants
Montreal, Quebec

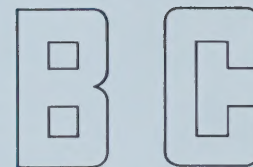
TRANSFER AGENT AND REGISTRAR

Montreal Trust Company,
Montreal and Calgary
(also Toronto, Winnipeg and
Vancouver for preferred shares)

REGISTERED OFFICE

First Canadian Place
Toronto, Ont.

AR25



CAPITAL LTD.

SECOND
QUARTER
REPORT
1977

TO THE SHAREHOLDERS

Financial

Stock markets both in the U.S. and Canada continued to show divergent trends during the second quarter of the year, with large capitalization companies, which heavily influence the well known stock market averages, substantially underperforming the price action of the average stock. In this environment GBC Capital experienced relatively favourable results with net assets reaching a record high.

During the three month period ended 30th June, 1977, the net asset value per common share, valuing Associated Companies at equity, rose 9.5% to \$12.73 and, at market, 8.5% to \$12.50. For the first half of 1977 the corresponding gains were 13.8% and 14.8% respectively; during the same interval the Dow Jones Industrial Index fell 8.8% while the Toronto Stock Exchange Composite index rose 1.9%.

Net income for the first six months of 1977 totalled \$752,000 equivalent to \$0.22 per common share after preferred dividend payments. While this represented a decline from the \$0.24 per common share earned in the first six months of 1976, reflecting a lower share of earnings of Associated Companies, it is not expected that earnings for the full year will fall below those of 1976.

Associated Companies

Headway Corporation Limited

Prior to the recognition of an extraordinary item, representing a loss of \$950,000 incurred on the sale of Suny's retail gasoline outlets, net income for the nine months ended 31st May, 1977, was \$705,000 or \$0.24 per share compared to \$794,000 or \$0.27 per share last year. Cash flow was \$1,850,000 or \$0.62 per share compared to last year's \$1,939,000 or \$0.65 per share.

Headway is actively involved in the development and sale of tax deferred income property units which are providing its housing and construction divisions with worthwhile levels of activity at a time when the conventional housing market is somewhat depressed. The company anticipates a reasonably satisfactory year as compared to 1976.

Revelstoke Companies Ltd.

For the three months ended 31st March, 1977, Revelstoke had a satisfactory gain in sales to \$26.5 million compared to \$21.4 million in 1976 but reverted to the traditional pattern for first quarters by reporting a small loss of \$232,000 or \$0.07 per share. In the first quarter of 1976 there was a profit of \$89,000 or \$0.02 per share.

No allowance is made for the proposed deduction from taxable income of 3% of the opening value of inventories, contained in the recent budget. If enacted this legislation will increase net income for 1977 by about \$525,000.

Retail sales have been strong in the Prairie Provinces but weak in British Columbia reflecting soft business

conditions there. The concrete division continues to achieve excellent results and lumber prices have been firm.

Some economic recovery in British Columbia is expected to occur later this year, and, taking all factors into account, Revelstoke should attain reasonable growth in both sales and earnings in 1977.

Toromont Industries Ltd.

Sales for the three months ended 31st March, 1977, were \$14.1 million and net earnings were \$276,000 or \$0.09 per share. In the equivalent period of last year sales were \$11.5 million and net earnings were \$139,000 or \$0.03 per share. These figures refer to continuing operations and thus exclude the results of certain subsidiaries sold in 1976.

The per share figures reflect the 36% reduction in common shares outstanding which occurred late in 1976.

These improvements in sales and earnings are attributable to the recovery in the market for capital goods, particularly in the U.S., which is expected to continue for the rest of the year.

Outlook

After a period of strong economic growth in the U.S. during the first half of the year, the outlook is for substantially reduced expansion during the second half. The rate of inflation may also decline, as record grain crops and excess metal inventories are expected to hold down commodity prices. A strengthening of short term credit demand both for consumer instalment debt and corporate requirements has pushed up short term interest rates but long term rates have remained relatively stable.

Canada continues to suffer from a lack of price competitiveness in both domestic and international markets and severe political uncertainties. The relative attraction of equities has improved greatly however as the result of recent budget proposals which would have the effect of reducing the taxation of dividend income. This factor, together with the prospect for the removal of restrictions on dividend payments, has buoyed the Canadian stock market.

With the possibility of lower inflation in the U.S. during the remainder of 1977 and an improved level of investor confidence in Canada, the outlook for the stock markets appears promising for those companies which are relatively undervalued and where earnings growth prospects remain favourable.

Respectfully submitted,

Clifford L. Larock,
President

Montreal, Quebec,
25th July, 1977.

GBC CAPITAL LTD.

CONSOLIDATED STATEMENT OF INCOME (unaudited)

	Six months to 30th June	
	1977	1976
INCOME FROM INVESTMENTS		
Portfolio investments	\$ 430,271	\$ 385,678
Associated companies (share of earnings)	631,835	716,913
	<u>1,062,106</u>	<u>1,102,591</u>
EXPENSES		
Management	118,300	109,884
Other	56,437	35,474
	<u>174,737</u>	<u>145,358</u>
	<u>887,369</u>	<u>957,233</u>
Income and withholding taxes	60,830	90,700
	<u>826,539</u>	<u>866,533</u>
Minority interest	74,495	74,629
NET INCOME FOR PERIOD	<u>\$ 752,044</u>	<u>\$ 791,904</u>
Per common share	<u>\$0.22</u>	<u>\$0.24</u>

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (unaudited)

	Six months to 30th June	
	1977	1976
NET ASSETS AT BEGINNING OF PERIOD	<u>\$36,237,103</u>	<u>\$29,650,047</u>
Net income for period	752,044	791,904
Portfolio securities at average cost at beginning of period	20,769,687	18,986,396
Purchases	<u>5,018,182</u>	<u>8,009,656</u>
	<u>25,787,869</u>	<u>26,996,052</u>
Portfolio securities at average cost at end of period	<u>21,363,698</u>	<u>21,501,309</u>
Cost of securities sold	4,424,171	5,494,743
Proceeds from securities sold	<u>4,816,116</u>	<u>6,303,720</u>
Gain on changes in investments	391,945	808,977
Gain (loss) on exchange	147,753	(24,635)
Income taxes on changes in investments	(12,100)	(17,394)
Stated value of common shares held by a subsidiary and disposed of during period	198,000	—
Increase in unrealized appreciation	3,189,941	3,278,760
Dividends on preferred shares	<u>(157,500)</u>	<u>(157,500)</u>
INCREASE FOR PERIOD	<u>4,510,083</u>	<u>4,680,112</u>
NET ASSETS AT END OF PERIOD	<u>\$40,747,186</u>	<u>\$34,330,159</u>
Per common share	<u>\$12.73</u>	<u>\$11.63</u>